

FINANCIAL STATEMENTS

OF

**SEQUOYAH COUNTY
RURAL WATER DISTRICT NO. 4
SEQUOYAH COUNTY, OKLAHOMA**

December 31, 2013



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 4
Sequoyah County, Oklahoma

We have audited the accompanying statements of assets, liabilities and fund balances- modified cash basis as described in Note 1, of Rural Water District No. 4, Sequoyah County, Oklahoma, as of and for the year ended December 31, 2013 and the revenues, expenses, and changes in fund balance – modified cash basis for the years then ended and the related notes to the financial statements which comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of Rural Water District No.4, as of December 31, 2013, and the revenues, expenses, and changes in fund balance and cash flows for the year then ended, on the basis of accounting described in Note 1.

Other-Matter

Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2014, on our consideration of Rural Water District No. 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water District No. 4's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

May 5, 2014

SEQUOYAH CO RWD4
Balance Sheet – Modified Cash Basis
December 31, 2013

ASSETS

Current Assets

Petty Cash	\$ 583
Cash O & M account	1,490
Armstrong Bank	96,807
Armstrong CD	<u>152,326</u>

Total Current Assets 251,206

Fixed Assets

Water Systems	2,217,083
Equipment	110,690
Land	28,888
Accumulated Depreciation	<u>(906,674)</u>

Total Fixed Assets 1,449,987

Total Assets \$ 1,701,193

LIABILITIES AND EQUITY

Current Liabilities

Payroll Liabilities	\$ (75)
Current Maturities	<u>66,846</u>

Total Current Liabilities 66,771

Long Term Liabilities

N/P Government Capital	282,235
Notes Payable/J.P. Morgan	19,018
Loan - Wells Fargo	37,043
Less: Current Maturities	<u>(66,846)</u>

Total Long Term Liabilities 271,450

Equity

Invested in Capital Assets	1,111,691
Unrestricted	258,355
Current Income (Loss)	<u>(7,074)</u>

Total Equity 1,362,972

Total Liabilities & Equity \$ 1,701,193

See accompanying footnotes and independent auditors' report.

SEQUOYAH CO RWD4
Income Statement – Modified Cash Basis
December 31, 2013

Revenue

Water Revenue	\$ 438,127
Membership Dues	10,926
Other Operating Revenue	2,175
Penalties and Late Charges	10,151
Government Capital Reimb.	<u>352</u>

Total Revenue 461,731

Cost of Sales

Water Purchases	179,492
Equipment Rental	967
Repairs and Supplies	41,348
Vehicle Expense	3,317
Lab Fees	4,523
Contract Labor Line Maint.	<u>42,959</u>

Total Cost of Sales 272,606

Gross Profit 189,125

Operating Expenses

Salaries	43,734
Payroll Taxes	3,346
Licenses and Permits	40
Insurance	7,087
Accounting	3,400
Maintenance Supplies	4,345
Bank Charges	2,083
Miscellaneous	455
Office Supplies	5,905
Postage	3,208
Telephone	2,961
Utilities	11,687
Trash Service	484
Depreciation	90,241
Dues and Subscriptions	<u>661</u>

Total Operating Expenses 179,637

Operating Income 9,488

Interest Expense	17,698
Interest Income	<u>1,136</u>

Total Other Income (16,562)

Net Income (Loss) \$ (7,074)

See accompanying footnotes and independent auditors' report.

SEQUOYAH CO RWD4
Statement of Cash Flows
December 31, 2013

Cash Flows From Operating Activities:

Cash received from customers	\$ 466,653
Cash received from other sources	2,527
Cash paid to employees	(47,080)
Cash paid to suppliers	(229,647)
Other operating payments	(85,274)
Net Cash Flows from Operating Activities	107,179

Cash Flows From Capital and Related

Financing Activities:

Proceeds from debt	60,844
Payment of debt	(51,220)
Acquisition and construction of capital assets	(75,211)
Payment of Interest	(17,698)
Net Cash (Used) By Capital and Related Financing Activities	(83,285)

Cash Flows From Investing Activities:

Receipt of interest and dividends	1,136
Net Cash Provided (Used) By Investing Activities	1,136

Net Increase (Decrease) In Cash	25,030
Cash Beginning of Year	226,176
Cash End of Year	\$ 251,206

**Reconciliation of Operating Income to Net Cash Flows from
from Operating Activities:**

Operating income (loss)	\$ 9,488
Add depreciation expense	90,241
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	7,450
Prepaid expenses	0
Increase/(Decrease) in Current Liabilities:	
Accounts payable	0
Accrued expenses	0
Net Cash Flows from Operating Activities	\$ 107,179

See accompanying footnotes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Sequoyah County Rural Water District #4 (the District) was organized to provide suitable water to customers in Sequoyah County, Oklahoma. Treated water is acquired solely from the City of Sallisaw and transmitted in District water lines to the customers.

Basis of Accounting

The financial statements of the District are prepared using the modified cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. Other modifications to the cash basis of accounting include recording depreciation on property and equipment and accruing for payroll taxes. This is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using a method other than generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, it has chosen not to do so.

Cash and Cash Equivalents

For the purpose of these financial statements, the District considers cash and cash equivalents to be cash on hand and all demand deposits with banks.

Funds on Deposit

The District maintains the following accounts for funds deposited with a fully insured bank:

Operating account- Gross revenues of the District are to be deposited to this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account.

Savings and certificates of deposit – A cash reserve is set aside in this account for unforeseen catastrophes, extensions and improvements to the water system.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

Sequoyah County RWD4

Building	20 years
Equipment	3-10 years
Water System and towers	10-40 years

It is the Districts policy to capitalize assets purchased for \$500 or more and to expense assets purchased for less than \$500.

Income Tax

The District is exempt from income taxes as a governmental agency.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures as of the date of the financial statements. Accordingly, actual results could differ from those estimates.

2. PROPERTY AND EQUIPMENT:

	Balance 12/31/12	Additions/ (Deletions)	Accumulated Depreciation	Balance 12/31/13
Water Systems	2,217,083	0	873,472	1,343,611
Equipment	35,489	75,201	33,202	77,488
Land	28,888	0	0	28,888
	<u>2,281,460</u>	<u>75,201</u>	<u>906,674</u>	<u>1,449,987</u>

3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at Firststar Bank and Armstrong Bank in Sallisaw, Oklahoma. As of December 31, 2013 the District's deposits in Firststar were \$1,490 and in Armstrong, \$96,807. The bank balances were covered completely by Federal Depository Insurance Corporation and \$0 was collateralized. Investments are certificates of deposit at Armstrong total \$152,326 which were also covered by FDIC.

4. LONG TERM DEBT

The District maintains a note payable with Government Capital Corporation – monthly payments are made in the amount of \$5,311 and include interest of 4.26%. The note is secured by the revenues and property of the District. The note will be paid in full in 2018.

The balance as of December 31, 2013 \$282,235

The District secured a note with Armstrong Bank on May 16, 2013 for the purchase of a new truck. The monthly payments are \$388.82 for 60 months at 3.25% interest. The balance as of December 31, 2013

19,018

Sequoyah County RWD4

The District secured a note with Kubota Credit Corporation on October 25, 2013 for the purchase of a tractor with front loader and backhoe. The monthly payments are \$823.17 for 48 months at 0% interest. The balance as of December 31, 2013

37,043

Total Long Term Debt
Less Current Maturities

338,296
66,846

Long Term Debt

\$271,450

Current maturities and debt service are as follows:

	<u>Current Maturities</u>	<u>Debt Service</u>
2014	66,846	78,270
2015	69,098	78,270
2016	71,626	78,270
2017	71,795	75,801
2018	58,931	60,344
2019-2024	<u>0</u>	<u>0</u>
	<u>338,296</u>	<u>370,956</u>

5. SUBSEQUENT EVENTS

Subsequent Events have been evaluated through the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT*
*AUDITING STANDARDS***

To the Board of Directors
Rural Water District No. 4
Sequoyah County, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rural Water District No. 4 Sequoyah County, Oklahoma, as of and for the years ended December 31, 2013, and the related notes to the financial statements, which collective comprise Rural Water District No. 4's basic financial statements, and have issued our report thereon dated May 5, 2014.

As described in Note 1, the District prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 4's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that

might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 4's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

May 5, 2014

SUPPLEMENTAL INFORMATION

Sequoyah County RWD4
BUDGET TO ACTUAL COMPARISON
December 31, 2013

	Original	Final	Actual	Variance
WATER SALES	420,000	420,000	438,127	18,127
PENALTIES	17,000	17,000	10,151	(6,849)
MEMBERSHIPS	12,000	12,000	10,926	(1,074)
OTHER INCOME	8,200	8,200	2,527	(5,673)
ADJUSTMENT TO CHARGES	(8,000)	(8,000)	0	8,000
INTEREST INCOME	10,000	10,000	1,136	(8,864)
TOTALS	459,200	459,200	462,867	3,667
COST OF WATER PURCHASED	160,000	160,000	179,492	19,492
WAGES/PR TAXES	78,800	78,800	47,080	(31,720)
UTILITIES	12,000	12,000	15,132	3,132
INUSRANCE EXPENSE	5,100	5,100	7,087	1,987
EQUIPMENT RENTAL	0	0	967	967
REPAIRS & MAINTENANCE	3,000	3,000	4,345	1,345
MATERIALS & SUPPLIES	40,000	40,000	41,348	1,348
VEHICLE EXPENSE	0	0	3,317	3,317
OFFICE SUPPLIES/POSTAGE	7,500	7,500	9,568	2,068
LAB FEES	17,000	17,000	4,523	(12,477)
DUES & MEMBERSHIPS	700	700	701	1
PROFESSIONAL FEES	5,000	5,000	3,400	(1,600)
INTEREST EXPENSE	21,000	21,000	17,698	(3,302)
BANK CHARGES	1,500	1,500	2,083	583
DEPRECIATION	54,500	54,500	90,241	35,741
CONTRACT LABOR LINE MAINT.	0	0	42,959	42,959
CAPITAL OUTLAY	10,000	10,000	75,201	65,201
TOTAL OPERATING	416,100	416,100	545,142	129,042
Net Income (Loss)	43,100	43,100	(82,275)	(125,375)
Add back capital outlay			75,201	
Change in Fund Balance			(7,074)	